Financial Stability Group Meeting No. 37
25 September 2020
Conference Call

Attendance:

Department of Finance	**Central Bank**	**NTMA**
Derek Moran	Gabriel Makhlouf	Frank O'Connor
Emma Cunningham	Ed Sibley	
Des Carville	Sharon Donnery	
Pat Leahy (Sec)	Vasileios Madouros	
Bláithín nic Giolla Rua	Kevin Mullen	
	Micheál O'Keeffe	
	Robert Kelly	
	Patricia Dunne	

The FSG agreed to take the documents circulated as read.

1. Account of previous Financial Stability Group meeting
The previous meeting's minutes were approved by the FSG.

2. Covid-19 Update – D/Finance
The D/Finance updated on Government policy matters, including:

- The European Commission has appealed the Apple case.
- Budget work is ongoing; the objective will be to have the deficit moving in the right direction.
- The economic forecasts submitted to IFAC were based on no trade deal and no vaccine with a return to pre-Covid-19 economic levels in 4/5 years and 1-2% return in growth next year.
- Internal work structures around Brexit are back meeting and preparing.
- D/PER is currently working with the Commission to finalise receipt of funding under the SURE scheme.
- While the EWSS is the main Government support to business, which is available until April 2021, targeted support is likely to be needed for the parts of the economy in permanent or temporary lockdown due to Covid-19.
- The Ministers for Finance and PER and the Tánaiste are due to meet with the CEOs of the main retail banks and BPFI to discuss the operation of the end of payment breaks.

3. Covid-19 Update – Central Bank
The Central Bank updated on regulatory policy matters, including:

- The CBI Quarterly Economic Bulletin will be published on 6 October. The baseline scenario assumes that trade between the EU and the UK moves to WTO terms from 1 January.
- Work is ongoing with all lenders as payment breaks end to ensure an effective operation of case-by-case payment breaks going forward, using the full suite of tools. While there are areas for follow up, the Central Bank is broadly satisfied with the lenders' strategies and operational plans developed for the next phase.
- Senior Bank officials will speak publicly on distressed debt next week. Material will be also published on the topic including an analysis of long-term mortgage arrears and lessons learnt from the last crisis.

4. Covid-19 Update – NTMA
The NTMA updated the group on bond market developments, including:

- NTMA funding for 2020 is well positioned with 90% of the €24bn target completed to date.

- Expected to finish year with a strong cash position. Focus already moved to determining what funding is needed for next year. This will be guided by the Budget.
- Approach with investors will be to look at outrun for 2020 together with updated deficit projection for 2021.

5. Investment Funds

Following on from the Medium-Term Issues Notes and the Medium Term Plan of topics to be discussed by the FSG, the issue of the impact of Covid-19 on the funds sector was discussed following a presentation on the subject by the Central Bank. The following observations were made:

- Policies on resilience in this sector are likely to be guided by the FSB's report to the G20 in November on the market turbulence of March/April 2020 and the Central Bank is actively engaged with several fora that feed into this work.
- The challenges in the sector at the height of the COVID-19 market turbulence, including Money Market Funds and other investment funds with exposures to less liquid assets, were noted.
- The value of property investment vehicles compared to pre-2008 individual investors is recognised, but there is still potential for risk which needs management.
- D/Finance restated its intention to look at the wider aspects of the funds sector, including financial services, financial stability and taxation.
- The need for further engagement on non-bank financial intermediation is recognised.

6. Affordable Housing Shared Equity Scheme

D/Finance presented on the proposed Affordable Housing Shared Equity Scheme, which is one of the 2020 commitments in the Programme for Government and the Central Bank also outlined considerations around the potential interaction of the scheme with the mortgage measures. The following observations were made:

- This and other secondary housing support measures only focus on specific financial aspects of the housing problem but fundamentally the supply deficit is what needs to be addressed.
- The scheme as defined could impact on prices thereby increasing levels of personal debt. It is also not clear that the scheme will to any extent promote additional supply. Further information/analysis would help the decision-making process.
- What have started as time-limited financial support housing schemes have often been extended. The overall impact on the housing market will be influenced by the potential expansion and reinvestment plans for the scheme.
- The tendency to use average statistics to support the introduction of a scheme disguises the differentials in Ireland, particularly between Dublin and the rest of the country, as well significant variations in house prices within a specific region.
- D/Finance noted that state aid requirements will be a key consideration in the design and operationalisation of the scheme.
- The Central Bank noted that the interaction between the scheme and the mortgage rules will need to be further considered as more details around the proposed scheme become available. All decisions around the mortgage measures are taken by the Central Bank's Commission. The Central Bank noted a number of outstanding key design features that would need to be shared in advance of such a decision.
- These concerns will be raised at the Cabinet Committee next Monday and CBI will be updated afterwards.

7. AOB

- The FSG workplan for Q4 2020 was agreed subject to minor corrections.
- The timeline of relevant Programme for Government commitments for 2020 and beyond was noted.